DEPARTMENT OF DEFENSE

AUDIT REPORT

BILLINGS FOR CENTREX AUTOVON TERMINATIONS
IN THE DEPARTMENT OF THE NAVY

No. 91-043

February 6, 1991

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February 6, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Audit Report on Billings for CENTREX AUTOVON Terminations in the Department of the Navy (Report No. 91-043)

This is our final report on the Audit of Billings for CENTREX AUTOVON Terminations in the Department of the Navy. The audit was performed from January through December 1989. The objective of the audit was to determine whether the Bell Operating Companies have properly billed DoD telecommunications users for Central Office Exchange Service (CENTREX) Automatic Voice Network (AUTOVON) termination service and for special assembly charges in accordance with existing tariffs and agreements. We also evaluated the adequacy of internal controls. This report addresses only Navy users of CENTREX. Separate final reports on CENTREX users in the Air Force, the Army, the Defense Logistics Agency, and the Defense Telecommunications Service-Washington either have been issued or will be issued. We commend Navy management for attempting to correct many of the conditions noted in this report. The Navy continuously stressed the need for accurate inventories, proper certification of bills, and improvements for the management of telecommunications. However, for reasons cited in this report, those procedures were not implemented.

We identified all Navy installations that receive leased telephone services from a Bell Operating Company CENTREX. Through a mechanized process, the CENTREX allows the local Bell Operating Company Central Office to act as a transmitter between the Navy installations and the AUTOVON and the Defense Commercial Telecommunications Network (DCTN). This transmission arrangement is known as an AUTOVON termination and a DCTN termination. The pricing of these terminations is controlled through Bell Operating Company tariff filings at state public utility commission offices. The monthly charge for termination service at an installation is directly proportional to the number of AUTOVON or DCTN access lines located at the installation. We reviewed monthly Bell Operating Company and American Telephone and Telegraph Company (AT&T) termination charges for all Navy installations that receive CENTREX. We also reviewed AT&T charges for special assemblies. Special assemblies are equipment items that are custom designed for DoD users.

The audit showed that Navy communications managers improperly certified monthly communications bills from the Bell Operating Companies and AT&T. Communications managers could not verify the authenticity or accuracy of charges since circuit and special assembly inventories were not performed. In addition, installations did not have accurate Communications Service Authorizations, Basic Agreements, and tariffs, all of which are critical to maintaining an adequate contractual relationship with communications vendors. The audit also showed that the Naval Computer and Telecommunications Command does not have an effective oversight program designed to monitor base communications. The results of the audit are summarized in the following paragraph, and the details, audit recommendations, and management comments are in Part II of this report.

The Navy overpaid two Bell Operating Companies $178,449 for AUTOVON and DCTN termination service from July 1982 through January 1989. Overcharges for AT&T AUTOVON terminations for the Navy totaled $600,075 from March 1984 through May 1989. Additionally, from March 1984 through May 1989, AT&T overcharged the Navy $291,619 for special assembly items that had not been identified. If these inadequate certification procedures concerning telecommunications billings are not rectified, unnecessary AUTOVON and DCTN termination and special assembly charges could cost the Navy as much as $497,177 during the execution of the FY 1991 through FY 1995 Five-Year Defense Plan (page 7).

A draft of this report was provided to the Navy for comments on June 28, 1990. Comments from the Department of the Navy were received on September 26, 1990 (see Appendix E).

In response to a Navy request, we have included a provision in the finding that addressed the legal and contractural negotiations that the Navy and telephone company vendors will enter into and which may result in the Navy receiving less credits than those identified in the draft report. Recommendations 2.a. and 2.b. have been amended to reflect this contingency. The Navy concurred in principle with Recommendation 1.a., which directed the Naval Computer and Telecommunications Command to obtain a credit of $674,516 from AT&T and two Bell Operating Companies for past overpayments. The Navy claimed that our computations of the overcharges were estimates and requested that we qualify the finding and all other associated recommendations (Recommendations 2.a. and 2.b.) to reflect this matter.

The Navy concurred in principle with Recommendation 1.b. to establish a command internal control program to verify compliance with bill paying procedures. We viewed its response as a full concurrence.

The Navy concurred with Recommendation 1.c. to add a provision in the Navy Telephone Manual for disciplinary action for communications managers who certify bills improperly.

The Navy concurred in principle with Recommendation 2.a., which proposed a reduction in the FY 1990 communications budget. The Navy stated that the reduction should occur in FY 1991.

Finally, the Navy concurred with Recommendation 2.b., which proposed a reduction in the appropriate communications element for the FY 1990 through FY 1994 Five-Year Defense Plan.

We updated our projections of budgetary savings in this final report to $767,110 for FY 1991 and to $1,171,693 for the Five-Year Defense Plan in Recommendations 2.a. and 2.b.

We believe that, with the adjustments described above, the finding and each of the recommendations is still warranted for the reasons cited in Part II of the report. DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Accordingly, the Navy should provide final comments on the finding and on Recommendations 1.a., 2.a., and 2.b. within 60 days of the date of this memorandum. Management's comments should state concurrence or nonconcurrence in each recommendation cited above, describe corrective actions taken or planned, and provide completion dates for actions taken or planned. Finally, although the replies to Recommendations 1.b. and 1.c. were responsive, a completion date for planned actions needs to be provided for these recommendations.

The audit identified internal control deficiencies as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not established to ensure compliance with inventory and bill paying procedures. In addition, there was no provision for disciplinary action for communications managers who certify bills improperly. Recommendations 1.b. and 1.c. in this report, if implemented, will correct these weaknesses. A copy of this report will be provided to the senior officials responsible for internal controls within the Office of the Chief of Naval Operations.

We request that the Navy provide a concurrence or nonconcurrence with the $1,171,693 in potential monetary benefits identified in Appendix F of this report. Potential monetary benefits are subject to resolution in the event of nonconcurrence or failure to comment.

A list of the audit team members is in Appendix I. Copies of the final report will be distributed to the activities listed

in Appendix J. If you wish to discuss this final report, please contact Mr. John A. Gannon at (703) 693-0113 or Mr. Francis C. Bonsiero at (703) 693-0076. The courtesies extended to the staff during the audit are appreciated.

E. Jones

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:
Secretary of the Navy
Deputy Assistant Secretary of Defense (Command, Control, and Communications)
Director, Defense Communications Agency

BILLINGS FOR CENTREX AUTOVON TERMINATIONS IN THE DEPARTMENT OF THE NAVY

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Prepared by:
Readiness and Operational
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BILLINGS FOR CENTREX AUTOVON TERMINATIONS
IN THE DEPARTMENT OF THE NAVY

PART I - INTRODUCTION

Background

The Automatic Voice Network (AUTOVON) and the Defense Commercial Telecommunications Network (DCTN) are the long-distance voice (telecommunications) networks for the Department of Defense. Appendix A defines the communications terms intrinsic to this audit report. These two networks function as general purpose (common-user) backbone networks, and DoD subscribers pay user fees to the Defense Communications Agency (DCA) for the maintenance and operation of the networks. DCA is responsible for the design, acquisition, and management of both networks. However, camp, post, station, and base communications needs, such as AUTOVON and DCTN terminations and special assemblies, at DoD activities and installations are acquired and managed through a base communications office at DoD installations. Obtaining access to the AUTOVON and DCTN is a function of base communications.

Before deregulation and divestiture of the American Telephone and Telegraph Company (AT&T) and the Bell Operating Companies on January 1, 1984, AT&T primarily provided, maintained, and billed for local and long-distance telephone service and associated customer-premise equipment (leased equipment). With the advent of divestiture, AT&T and its 22 Bell Operating Company subsidiaries were divested of assets and services by Federal court decree in the Plan of Reorganization. Among other things, the Plan of Reorganization separated local service from long-distance service and established distinct telecommunications markets. AT&T became the provider of long-distance service, and the 22 Bell Operating Companies were allowed to provide local exchange services through their automated telecommunications system known as the Central Office Exchange Service (CENTREX). In addition, AT&T maintained ownership of and the right to charge for leased equipment and special assemblies. Appendix B contains additional information on the billing effects of divestiture within the DoD and on Navy users of CENTREX.

After divestiture in 1984, DoD CENTREX installations received two monthly telecommunications bills, an AT&T bill and a local Bell Operating Company bill. Among the more significant billing items on the AT&T invoice were the charges for AUTOVON terminations and special assemblies. An AUTOVON or DCTN termination is a software function of CENTREX that provides a DoD CENTREX customer with connectivity from the local installation to the AUTOVON or DCTN network. However, AT&T should not have

charged for AUTOVON termination service because that service was provided by the Bell Operating Companies, not AT&T. For the purposes of this report, we have termed such erroneous charges as overcharges. The local Bell Operating Companies file tariffs with state public utility commissions and are granted the exclusive right to provide DoD customers with AUTOVON and DCTN termination services. Bell Operating Company tariffs are filed as private line terminations and affect both the AUTOVON and the DCTN systems. Bell Operating Company overcharges for termination service occurred at four Navy installations included in our audit. See Part II of this report for a detailed discussion on AUTOVON and DCTN termination overcharges.

A special assembly, leased from AT&T, is specially designed for the specific needs of a DoD customer. A special assembly can be added to existing equipment or circuits or can function as a separate equipment item. In all cases, special assemblies enhance the ordinary capabilities of existing equipment and have features that are essential to DoD customers. For example, many DoD customers require special telephone voice filters to maintain confidential telecommunications. Other DoD customers require special telephone conferencing arrangements. In both instances, AT&T provides the special assemblies to meet DoD communications needs. Part II of this report addresses AT&T overcharges for special assemblies.

Objectives and Scope

The objective of the audit was to determine whether the Bell Operating Companies have properly billed DoD telecommunications users for CENTREX AUTOVON termination service and for special assembly charges in accordance with existing tariffs and agreements. We also evaluated the adequacy of applicable internal controls. This report addresses only Navy1/ users of CENTREX. Separate final reports addressing CENTREX users in the Air Force, the Army, Defense Logistics Agency, and the Defense Telecommunications Service-Washington either have been or will be issued.

The audit concentrated on AT&T and Bell Operating Company charges for AUTOVON and DCTN termination service and special assembly items at Navy CENTREX installations for the period January 1, 1984, through May 31, 1989. However, we discovered Bell Operating Company overcharges at two Navy installations in Pennsylvania that occurred from July 1982 through July 1984.

1/ The various Navy activities audited include one Marine Corps installation.

Accordingly, for this specific area only, we extended the scope of the audit to correspond with the date of initial overcharging, July 1982.

AT&T provided us with the network configurations and official accounting records for the period January 1, 1984, through August 31, 1988. From the AT&T network configurations, we determined that 14 Navy installations were serviced by CENTREX. Further, upon an examination of AT&T accounting records, we identified 11 Navy installations[2/] that were being billed for AUTOVON or DCTN termination service and special assemblies. With the records available at the installations, we verified that charges were erroneous at 10 of the 11 installations included in our audit. We provided Navy installation commanders with our results immediately upon completion of the verification work at each site. Further, to provide timely audit results, we sent memorandums to the commanders summarizing our findings, and provided the same summaries to the appropriate higher Navy commands and to DCA.

This economy and efficiency audit was made from January through December 1989. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix H.

Internal Controls

The Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123 require each Federal agency to establish a program to identify significant internal control weaknesses. Office of the Chief of Naval Operations Instruction 5200.25, "Chief of Naval Operations Management Control Program," dated July 12, 1988, contains policies and procedures for implementing the Navy's internal controls program.

2/ Naval Aviation Supply Office, Philadelphia, Pennsylvania; Naval Ships Parts Control Center, Mechanicsburg, Pennsylvania; Navy Public Works Center, Norfolk, Virginia; Naval Amphibious Base-Little Creek, Little Creek, Virginia; Norfolk Naval Shipyard, Portsmouth, Virginia; Naval Station and Naval Base-Charleston, Charleston, South Carolina; Naval Station-New York, Brooklyn, New York; Western Division-Naval Facilities Engineering Command, San Bruno, California; Puget Sound Naval Shipyard, Bremerton, Washington; Naval Postgraduate School, Monterey, California; Marine Corps Air Station, El Toro, California.

Although the Naval Computer and Telecommunications Command (the Command) issued internal control guidance for base communications bill paying verification procedures, the Command had not implemented any measures to determine Navy-wide installation compliance with the procedures. For the 11 Navy installations included in our audit, we reviewed certification procedures relating to monthly communications bills dated from January 1, 1984, through May 31, 1989. The Command had designed internal controls for base communications managers to implement that would guard against payment of unauthorized or inappropriate telecommunications charges. Nevertheless, the internal control weaknesses identified in Part II of this report can be attributed to Navy communications managers performing ineffective certifications of monthly communications bills. The overcharges identified in this report could have been avoided had the Command monitored the effectiveness of procedures for maintaining official inventories of services and equipment and for reconciling monthly bills at Navy installations.

Prior Audit Coverage

The Naval Audit Service Report No. 7347/T20056, "Billings for Telephone Services, Systems, and Equipment," dated September 17, 1987, identified several systemic management problems at five of the installations included in this report. The Naval Audit Service report identified a breakdown in bill paying verification procedures and inventory management procedures. The report stated that Navy and Marine Corps activities generally paid the full amount of bills for telephone service and equipment without reviewing the bills for accuracy. Overcharges in fiscal years 1985 and 1986 were identified. In addition, the report disclosed that communications managers paid monthly charges for special assembly items, even though these items could not be identified. The report recommended that Naval activities: recoup overpayments made to communications vendors, perform physical inventories of leased equipment, and maintain a perpetual inventory for comparison with vendor bills; obtain assistance from the Command regarding telephone usage and bill processing as a result of divestiture; and review equipment vendor bills for special assembly charges, and discontinue payment of these charges if the equipment cannot be found. Although the Navy concurred with these recommendations and indicated its intent to implement corrective action, our report addresses identical inadequacies in bill paying verification and inventory management procedures and notes that Naval activities continue to pay for special assemblies that cannot be identified. Our current audit showed that the conditions reported by the Naval Audit Service still existed in 1989.

The Office of the Assistant Inspector General for Auditing, DoD, Report No. 90-005, "Requirements Validation For Telecommunications Services," dated October 16, 1989, states that installation circuit inventories were often missing or inaccurate. The report recommended that DoD Components establish and accurately maintain, at the user, communications command, or communications management levels, perpetual inventories of telecommunications circuits leased and owned by the Defense Communications Systems Organization. The Assistant Secretary of Defense (Command, Control, Communications and Intelligence) concurred with this recommendation and is implementing a DoD directive to accomplish the inventory objective. The results of our current efforts reinforce the need to perform and maintain accurate inventories of telecommunications assets at the installation level.

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PART II - FINDING AND RECOMMENDATIONS

AUTOVON and DCTN Termination and Special Assembly Overcharges

FINDING

Ten Navy installations were overcharged by the American Telephone and Telegraph Company (AT&T), the Chesapeake and Potomac Telephone Company of Virginia (C&P), and the Bell of Pennsylvania Telephone Company (Bell of Pennsylvania) for termination service for the Automatic Voice Network (AUTOVON) and the Defense Commercial Telecommunications Network (DCTN) and for special assembly equipment. AT&T overcharges resulted from incorrect billings for AUTOVON termination service and special assemblies. Bell Operating Company overcharges occurred because of incorrect billings for the number of circuits associated with AUTOVON and DCTN termination service and from incorrect and unauthorized tariff charges for AUTOVON termination service. The overcharges were incurred continuously for about 7 years because Navy communications managers did not perform inventories of circuits and leased special assemblies and did not check the accuracy of telephone bills before certifying them for payment. As a result, the Navy overpaid AT&T and two Bell Operating Companies in excess of $1,070,000 for AUTOVON and DCTN termination service and special assembly equipment. Unless this condition is rectified, unnecessary AUTOVON and DCTN termination charges and special assembly charges could cost the Navy as much as $92,594 during FY 1991, and $497,177 during the execution of the FY 1991 through FY 1995 Five-Year Defense Plan, depending on legal and contractual negotiations with telephone company vendors.

DISCUSSION OF DETAILS

Background. From the time of divestiture in 1984 and continuing through 1989, the Naval Telecommunications Command exercised overall responsibility for the administration of base communications in the Department of Navy. The Navy Commercial Communications Office was established as a subordinate activity under the Naval Telecommunications Command and was responsible for implementing Navy policy regarding base administrative telephone services and facilities. Telephone Management Detachments (TMD's) are regional field activities subordinate to the Navy Commercial Communications Office, and they provide management, administrative, planning, and engineering support to all Naval Activities Providing Telephone Service (APTS). APTS are base communications offices that are located at most Naval shore installations and are responsible for the daily management of all base administrative telephone services and facilities. For the purposes of this report, we refer to personnel assigned

to the APTS function as base communications managers. In 1990, the Naval Telecommunications Command and the Navy Commercial Communications Office were redesignated the Navy Commercial Communications Center.

Communications Contracts. The Basic Agreement and the Communications Service Authorization (CSA) are the two documents that together form the required communications contract between the Navy installation and the telephone company vendors. Individually, neither document constitutes a contract. In the Basic Agreement, the Defense Commercial Communications Office (DECCO), a subordinate activity of the Defense Communications Agency (DCA), sets forth the general terms and conditions between the DoD and telephone company vendor. Then, the CSA is issued to the telephone company vendor to provide specific services and equipment. Costs for services and equipment cannot exceed the stipulated dollar amount authorized in the CSA; CSA's are not binding unless issued pursuant to a Basic Agreement. Navy Telecommunications Instruction 2066.1, "Navy Telephone Manual," dated November 3, 1987, provides background information for preparing and submitting CSA's. The Naval Telecommunications Command delegated to installation commanders the authority to negotiate CSA's for most base communications services under $25,000. The installation commander was responsible for appointing a warranted contracting officer from his staff for executing CSA's. CSA's that exceeded $25,000 required the approval of the servicing TMD office. In October 1989, the CSA dollar threshold delegated to local installations was increased to $100,000 by the Naval Telecommunications Command. The increase applied to regulated services. TMD approval was required for products and services costing between $25,000 and $100,000.

CSA's should accurately reflect the type of communications services and equipment that a Navy installation is receiving from a telephone company. Normally, the CSA will define and classify telephone services by billing codes, commonly referred to by telephone company vendors as Universal Service Order Codes. AUTOVON and DCTN termination service and special assembly equipment are two types of telephone services common to Navy Central Office Exchange Service (CENTREX) subscribers. Installations are charged monthly for these services.

AUTOVON and DCTN Terminations. Navy AUTOVON and DCTN users must pay a backbone fee to DECCO for use of the networks. In addition, Navy CENTREX users must pay a charge to the local Bell Operating Company for routing incoming and outgoing AUTOVON and DCTN calls from the local Bell Central Office to the installation. Through a mechanized process, a CENTREX software function allows the Central Office to act as a transmitter

between the installation and the AUTOVON and DCTN. This transmission arrangement is known as an AUTOVON termination and a DCTN termination. The monthly charge for termination service is directly proportional to the number of AUTOVON or DCTN access lines located at a Navy installation and is controlled in most states through tariffs filed by the local Bell Operating Company with the appropriate state public utility commission.

Special Assemblies. Customer-premise equipment (leased equipment) that is specially designed for the specific needs of a Navy CENTREX user is known as a special assembly. There is a monthly equipment charge, ranging from less than $5 per unit to more than $250 per unit, for every special assembly device installed at a Navy installation.

Telecommunications Guidance. In February 1987, a joint directive from the Office of the Chief of Naval Operations, the Naval Telecommunications Command, and the Navy Commercial Communications Office required all communications managers to verify bills before certification and to acquire and compare tariffs, equipment vendor price lists, commercial service agreements, and inventories against monthly invoices.

On October 2, 1987, the Office of the Chief of Naval Operations requested the Commander, Naval Telecommunications Command, to instruct base communications managers to develop local procedures for conducting equipment inventories that would provide guidance on the administration and processing of telephone bills and on the verification of special assemblies. Specifically, base communications managers were told that if special assemblies could not be identified, they were to discontinue paying the charges.

The Navy Telephone Manual (the Manual) was issued in November 1987 as a result of concerns by the Office of the Chief of Naval Operations over telecommunications procedural weaknesses identified in a Naval Audit Service report issued in September 1987. The Manual provides comprehensive guidance for base communications managers relating to payment certification procedures, inventory management procedures, and CSA's. Chapter 4, part I, of the Manual requires that base communications managers:

- develop and maintain a complete and current inventory of all equipment and services,

- ensure that information contained on CSA's is complete and correct,

- verify the accuracy of invoice billings against CSA's,

- verify all bills before certification,

- develop procedures to ensure that abandoned lines and special equipment are reported to the proper authorities,

- establish a Telephone Control Board to review base telephone services and monitor the annual review and revalidation survey,

- conduct training for telephone users,

- issue local instructions for tenant responsibilities,

- notify the responsible TMD office 1 year before the expiration of telephone-related contracts.

Methodology. The audit concentrated on AT&T and Bell Operating Company charges for AUTOVON and DCTN termination service and special assembly items at Navy installations for the period January 1, 1984, through May 31, 1989. However, because we identified Bell Operating Company overcharges at two Navy installations in Pennsylvania that occurred between July 1982 and July 1984, we expanded the scope of our audit to include the overcharges that began in July 1982. Appendix C provides details of our audit approach and the methods we used to determine the occurrence of overcharges.

AUTOVON and DCTN Termination Overcharges. After divestiture of AT&T in January 1984, Navy communications managers received a monthly AT&T bill, which itemized leased equipment and a monthly Bell Operating Company bill, which primarily reflected charges for local and long-distance telephone services. Ideally, immediately after divestiture, base communications managers should have identified the services and equipment associated with the AT&T bill and those associated with the local Bell Operating Company bill. Because this distinction was not made, billing errors relating to AUTOVON and DCTN termination service occurred at 9 of the 11 installations included in our audit.

AT&T Overcharges. Due to the erroneous transfer of billing codes from the Regional Bell Operating Companies to AT&T at the time of divestiture (described in detail in Appendix B), AT&T overcharged nine Navy installations for AUTOVON termination service. In each instance, the service was provided by the local Bell Operating Company, not AT&T. We found that although base communications managers were certifying monthly AT&T bills, they did not realize that AT&T was erroneously billing their installations for AUTOVON and DCTN terminations. Our audit

showed that improper certifications and subsequent overpayments continued for periods ranging from 9 to 62 months. Details on the overpayments follow.

Summary of AT&T AUTOVON Termination Overcharges

Navy Installation	Period of Overcharges	Amount Overcharged
Aviation Supply Office	August 1984 to December 1988	$150,972
Ships Parts Control Center	July 1984 to January 1988	248,222
Public Works Center-Norfolk	April 1985 to December 1988	84,307
Naval Amphibious Base-Little Creek	April 1986 to July 1988	15,629
Norfolk Naval Shipyard	April 1985 to January 1989	18,995
Naval Station New York	December 1984 to December 1988	34,911
Western Division Naval Facilities Engineering Command	March 1984 to January 1986	21,953
Naval Postgraduate School	March 1984 to May 1989	21,325
Marine Corps Air Station	April 1984 to May 1989	3,761
		$600,075

Discontinuance of Overcharges and Subsequent AT&T Credits. In 1987, AT&T determined that the charges assessed for AUTOVON and DCTN termination service to the installations listed above were billed in error and discontinued monthly charges for most AUTOVON termination billing codes. (See Appendix B for further details.) However, many of the installations included in our audit continued to be billed for minor charges associated with AUTOVON and DCTN termination service. For example, beginning in March 1984, the Naval Postgraduate School was billed for 16 Routine-AUTOVON terminations at $53.75 each ($860 per month), 2 Precedent-AUTOVON terminations at $62.19 each ($124.38 per month), and a single miscellaneous AUTOVON charge of $10.70 per month. While the Routine-AUTOVON and Precedent-AUTOVON termination charges ceased in January 1986, the $10.70 monthly charge continued through May 1989. Four of the nine installations listed above were billed for similar minor charges associated with AUTOVON termination service well after the large dollar charges discontinued. We concluded that the failure to remove these minor overcharges was due to an oversight by AT&T.

When AT&T learned that erroneous charges for AUTOVON and DCTN termination service had occurred, AT&T provided partial credits

to three Navy installations (Aviation Supply Office, Ships Parts Control Center, and Public Works Center-Norfolk) that had been overcharged. We could not determine why the remaining six installations did not receive a credit for AUTOVON or DCTN termination overcharges. In addition, we disagreed with AT&T's policy that overcharges occurring before April 15, 1985, were viewed by AT&T and the Bell Operating Companies as an inevitable consequence of the confusion brought about by divestiture and thus were allowed by the Plan of Reorganization (see details in Appendix B). After consulting with the Antitrust Division of the Department of Justice, we concluded that AT&T was liable for all overcharges associated with AUTOVON and DCTN termination billings that were assessed after January 1, 1984.

In late 1987, after learning of AT&T's erroneous charges for AUTOVON and DCTN termination service, the communications managers at the Ships Parts Control Center (the Center) in Mechanicsburg, Pennsylvania, contacted AT&T to resolve the issue of AUTOVON and DCTN termination service overcharges. The Center and AT&T disagreed on the totals billed for erroneous charges and subsequent AT&T credits. Because the Center believed that AT&T had not provided it full credit for AUTOVON and DCTN termination overcharges, from March to May 1988, the communications manager withheld $94,666 in monthly payments due AT&T. We conducted field work at the Center in January 1989 and documented the chain of events between the Center and AT&T. We continued our contact with the Center's communications manager after our audit work was completed. We met with AT&T management and the Center's communications manager on April 13, 1989, and identified AT&T overcharges and credits, as well as amounts withheld by the Center. Final resolution is still pending, since AT&T does not view the erroneous assessment for AUTOVON termination service prior to April 15, 1985, as an overcharge to the Center.

AT&T credits for AUTOVON and DCTN termination overcharges total $393,377 as summarized below.

Installation	AT&T Credits
Aviation Supply Office	$114,155
Ships Parts Control Center	227,436*
Public Works Center-Norfolk	51,786
Total	$393,377

* Includes $94,666 of monthly payments withheld from AT&T.

Based on the above credits, outstanding AT&T overcharges for AUTOVON and DCTN termination service total $206,698 ($600,075 in total overcharges less $393,377 in credits).

Bell Operating Company Billings for AUTOVON and DCTN Terminations. At the Public Works Center-Norfolk, Naval Base-Charleston, and the Puget Sound Naval Shipyard, charges for AUTOVON and DCTN terminations were made in accordance with the tariffs on file at the appropriate state public utility commission. However, based on a comparison of the official DCA inventory of AUTOVON and DCTN circuits against the number of circuits billed by each Bell Operating Company, we believe that minor undercharges may be occurring at the Public Works Center-Norfolk and at the Puget Sound Naval Shipyard. We advised the communications managers at these installations to reconcile their circuits with their Bell Operating Company representatives.

At the Naval Station-New York and at the Naval Postgraduate School, the respective Bell Operating Companies had not billed for AUTOVON and DCTN termination service since January 1984. The auditors brought this matter to the attention of the telephone company representatives, and both agreed that since it was an oversight made by their companies, neither installation would be billed retroactively for AUTOVON and DCTN termination service from 1984 to 1989. Accordingly, charges for AUTOVON and DCTN termination service would be made prospectively at the Naval Station-New York and the Naval Postgraduate School.

A similar situation existed at the Marine Corps Air Station in El Toro, California. Although Pacific Bell was charging the installation properly for the number of AUTOVON terminations, it neglected to charge the installation for the DCTN termination service that it provided the Marine Corps Air Station since 1986. Pacific Bell agreed that since it had committed the oversight, no retroactive charges would be assessed against the Marine Corps Air Station. However, Pacific Bell managers disagreed on the charge for DCTN termination service. The Pacific Bell marketing official for the Marine Corps Air Station stated that the DCTN termination charges would be $51.00 per termination, while a Pacific Bell official from a neighboring marketing area stated that the DCTN termination charge for the Marine Corps Air Station would be $92.75 per termination. The $51.00 charge represents the amount that Pacific Bell assesses DoD installations in California in accordance with a Pacific Bell tariff relating to the AUTOVON termination service. The $92.75 charge reflects a tie-line termination tariff filed by Pacific Bell and is used for pricing DCTN terminations at three Air Force installations in California.[3/] However, Pacific

[3/] The matter of AUTOVON and DCTN termination pricing disparities is being disputed and will be resolved by contracting officials at the Air Force Communications Command and officials from Pacific Bell.

Bell was assessing the Western District-Naval Facilities Engineering Command a $51.00 termination charge for DCTN termination service. Based on discussions with DCA officials, we agreed with the Pacific Bell assessment of $51.00, and we advised the communications manager at the Marine Corps Air Station to pursue this rate. In May 1990, the communications manager informed us that although Pacific Bell is assessing the Marine Corps Air Station $51.00 for DCTN termination service, Pacific Bell is underbilling significantly for the number of DCTN circuits. This underbilling, coupled with the examples of underbilling at the Ships Parts Control Center, the Norfolk Naval Shipyard, and the Naval Amphibious Base-Little Creek, illustrates the type of careless accounting and billing practices of telephone company vendors.

Bell of Pennsylvania Overcharges. Bell of Pennsylvania (Bell) overcharged the Aviation Supply Office and the Ships Parts Control Center for AUTOVON termination service from July 1982 through 1984. Bell filed a tariff with the Pennsylvania Public Utility Commission requesting approval to price AUTOVON terminations at $34.00 per unit. The Commission granted approval in July 1982, thereby setting a maximum limit of $34.00 per termination. However, Bell assessed the Aviation Supply Office a charge of $48.00 (for 89 Routine-AUTOVON circuits) and $69.00 (for 4 Precedent-AUTOVON circuits) and assessed the Ships Parts Control Center a charge of $90.55 (for 62 Routine-AUTOVON circuits) and $98.65 (for 3 Precedent-AUTOVON circuits). These overcharges ceased in July 1984, when the AUTOVON termination billing code was erroneously transferred to AT&T. Once Bell resumed its role as the proper billing vendor for the AUTOVON termination charges, the $34.00 termination charge was properly applied to both AUTOVON and DCTN terminations at the Aviation Supply Office and the Ships Parts Control Center. However, beginning in January 1988, Bell billed the Ships Parts Control Center for 108 AUTOVON and DCTN terminations, but the official DCA circuit inventory showed that the Center had a total of only 88 AUTOVON and DCTN terminations. The overcharges for both installations are summarized below.

Bell of Pennnsylvania Overcharges

Installation/Type of Circuit	Period of Overcharge	No. of Months	Monthly Overcharges 1/	Total Overcharges 2/
Aviation Supply Office Routine-AUTOVON	July 1982-July 1984	24	$1,246	$ 29,904
Aviation Supply Office Precedent-AUTOVON	July 1982-July 1984	24	140	3,360
Subtotal				$ 33,264
Ships Parts Control Center Routine-AUTOVON	July 1982-July 1984	24	$3,506	$ 84,146
Ships Parts Control Center Precedent-AUTOVON	July 1982-July 1984	24	194	4,655
Ships Parts Control Center Autovon and DCTN Circuits 3/	Jan. 1988-Dec. 1988	11	680	7,480
Subtotal				$ 96,281
Total				$ 129,545

1/ Rounded to nearest dollar.
2/ Overcharges represent exact amounts overbilled by Bell of Pennsylvania.
3/ Bell of Pennsylvania did not distinguish between AUTOVON (Routine or Precedent) and DCTN transmissions, and charged a $34 per line fee for all terminations.

Chesapeake and Potomac Telephone Company of Virginia (C&P) Overcharges. At the Naval Amphibious Base-Little Creek, C&P overcharged for a combination of AUTOVON and DCTN circuits from April 1986 through February 1987. We found that although C&P could have charged as much as $88.42 for each DCTN termination, C&P assessed charges of only $66.00 and $73.10 per DCTN termination. However, C&P billed the Naval Amphibious Base-Little Creek for an inaccurate number of circuits. As a result, overcharges of $17,869 were incurred by the Naval Amphibious Base-Little Creek. At the Norfolk Naval Shipyard, C&P overcharges from October 1986 through January 1989 occurred because of overbilling for twice the amount of Routine-AUTOVON circuits. C&P billed at the correct tariff price ($88.42), but did not bill for the correct number of circuits. As a result, overcharges of $31,035 were incurred by the Norfolk Naval Shipyard.

AT&T Special Assembly Overcharges. AT&T overcharged nine Navy installations for special assemblies that could not be identified or located by Navy communications managers. AT&T retained the right to charge for special assemblies as part of

the post-divestiture decree relating to the assignment of assets. Many of the special assemblies were installed by AT&T several years before divestiture, were removed by AT&T as assemblies became obsolete, and were replaced by state-of-the-art equipment available to all AT&T customers. However, AT&T did not maintain records documenting the removal of special assemblies. Yet, AT&T continued to bill the nine Navy installations for special assemblies that could not be located. Special assembly overcharges at the installations totaled $291,619. Of this total, in February 1988, the Puget Sound Naval Shipyard, withheld $2,250 in payments to AT&T. The amount represented special assembly overcharges by AT&T for 41 months. These overcharges were identified by Puget Sound as equipment items, not special assemblies, that were being provided and billed by the local exchange carrier, Pacific Northwest Bell, not AT&T. Thus, the net overcharges due the Navy by AT&T for erroneous special assembly overpayments are $289,369 (see Appendix D, for itemized overcharges by installation).

Special assembly billing errors that occurred in 1985 and 1986 were identified in a 1987 Naval Audit Service report. The Naval Audit Service detailed annual charges of $184,000 at 16 Navy installations for unidentified special assembly equipment[4/]. Six of the Navy installations included in our audit were identified by the Naval Audit Service as being billed by AT&T for special assembly equipment. In 1987, the Chief of Naval Operations issued guidance to the Commander, Naval Telecommunications Command, requiring all base communications managers to identify special assembly charges on invoices and to discontinue payment if the assemblies cannot be located. We found that only one installation, the Norfolk Naval Shipyard, submitted a letter to AT&T in November 1987 requesting that AT&T either identify special assembly charges or remove them from the Norfolk Naval Shipyard bill. AT&T removed all special assembly charges from the Shipyard's bill in February 1988.

Inventory Procedures. Generally, the Navy installations that we visited did not comply with the inventory requirements detailed in the Navy Telephone Manual nor with the inventory guidance issued under the direction of the Office of the Chief of Naval Operations. Had communications managers accounted for and classified installation circuits, they could have assessed the accuracy of the number of AUTOVON and DCTN termination charges by the local Bell Operating Company. Circuits should have been classified as Routine-AUTOVON, Precedent-AUTOVON, and DCTN circuits. However, only two of the Navy installations included in our audit maintained an accurate inventory of circuits and

4/ The report did not classify the billings as overcharges, and no recommendation was made to recoup the overbillings.

were billed properly by the servicing Bell Operating Company. Four of the installations audited incurred AUTOVON and DCTN overcharges by the Bell Operating Companies, and two installations had not been billed by their servicing Bell Operating Company for AUTOVON and DCTN termination service since 1984. Another installation had not been billed for its DCTN terminations, although it was billed for its AUTOVON terminations. In those three instances where nonbilling occurred, representatives from the respective Bell Operating Companies stated that billing would be prospective only, since the billing omission was the fault of the telephone vendor and not the Navy installations.

The special assembly overcharges occurred because of lax or nonexistent inventory procedures. Although abundant inventory guidance was available to the communications managers, we found only one instance of a special assembly inventory, occurring at the Western Division-Naval Facilities Engineering Command. In our opinion, we find the absence of special assembly inventories to be a serious condition in light of the message from the Chief of Naval Operations alerting communications managers to a special assembly billing problem and requesting them to cease payment of charges if assemblies cannot be identified. Further, the 1987 Naval Audit Service report identified special assembly billing errors and should have alerted communications managers to a deficient billing condition.

Some communications managers told us that insufficient staffing levels required them to delegate inventory responsibilities to their tenant activities, requesting that tenants verify the items billed to the tenant location. We were unable to substantiate this procedure. We found no indications that the communications managers had followed up or periodically monitored the inventory practices of their tenants. The lack of adequate inventory procedures relating to special assemblies cost the Navy $291,619 in unnecessary payments from July 1984 through May 1989.

If inventories had been performed, in accordance with sound inventory procedures described in the Navy Telephone Manual and with guidance from the Office of the Chief of Naval Operations, uncertainties during the payment certification process of monthly bills would have been eliminated.

Payment Certification Procedures. Once inventories have been established, communications managers should ensure that monthly charges for telecommunications services and equipment are accurate. Guidance available to communications managers for certifying invoices includes guidance from the Chief of Naval Operations, Navy Telecommunications Command, and the Navy Commercial Communications Office instructions that invoices be verified against tariffs, price lists, CSA's, and inventories.

However, most of the Navy installations included in our audit did not properly certify the accuracy of monthly Bell Operating Company and AT&T charges. We asked communications managers why these charges were not verified and were told that managers had neither the time nor sufficient personnel to verify the charges.

Additionally, none of the installations maintained copies of approved tariffs for AUTOVON and DCTN termination charges. Communications managers should maintain current tariffs filed by the servicing Bell Operating Company with the state public utility commission. These tariffs list the maximum authorized price for AUTOVON and DCTN terminations, and subsequent monthly invoice charges cannot, by state decree, exceed the authorized rate.

To complete the certification process, accurate CSA's and copies of the DECCO Basic Agreements, (i.e., AT&T and the servicing Bell Operating Company Basic Agreements) must be on file at the installation and must be reviewed with some frequency. Monthly payments for telecommunications services should be made only if authorized under the general terms of the Basic Agreement and the specific terms of the CSA. However, most of the Navy installations included in our audit did not maintain copies of either the AT&T or the Bell Operating Company Basic Agreement. In addition, only 1 of the 11 Navy installations included in our audit, Western Division-Naval Facilities Engineering Command, maintained a current CSA that reflected accurate services and charges for AUTOVON and DCTN terminations and special assemblies.

Unlike the Army and the Air Force, the Navy requires that a CSA be issued each time a change or relocation occurs or each time routine service calls are provided by the telephone company vendor. The Army and the Air Force issue base communications CSA's once a year, maintained and controlled by a centralized authorizing office. Maximum Limit CSA's are issued to cover the day-to-day routine telecommunications requirements of an Army or Air Force installation, thereby eliminating the need for excessive paperwork. The authority to contract for base communications at Navy installations has been delegated in some cases to the base communications manager and, in our opinion, may create an internal control gap in the telecommunications acquisition process. Communications managers may be ordering services and equipment without completing the required CSA documentation. In addition, we believe that individual CSA preparation creates an inordinate and unreasonable burden for base communications offices. An assistant base communications manager at the Norfolk Naval Shipyard stated that much of her time is spent preparing and processing CSA's. At the Puget Sound Naval Shipyard, we examined more than 2,000 CSA's relating to telecommunications services and were unable to locate the CSA's authorizing the numerous special assembly charges being assessed by AT&T.

Inadequate inventory and payment certification procedures existed at all Navy installations we audited. Erroneous charges by AT&T and the Bell Operating Companies went undetected for more than 7 years, primarily because communications managers did not properly certify invoices prior to payment. As a result of improper certification procedures, the Government's monetary interests were left unprotected at all levels of the base communications management structure. Communications managers did not identify erroneous monthly charges and continually certified and subsequently authorized incorrect invoices for payment.

The conditions described above, which resulted in substantial unnecessary payments by communications managers, were precisely the types of situations that Navy management strived to avoid. Communications managers disregarded the provisions of the Navy Telephone Manual and the guidance from the Office of the Chief of Naval Operations. The Naval Computer and Telecommunications Command (the Command) needs to ensure that communications managers follow prescribed inventory and bill paying certification procedures outlined in the Navy Telephone Manual. The Command should establish an oversight program that annually verifies the effectiveness of inventory and bill paying certification procedures. A thorough oversight program is critical, since most base communications CSA's are prepared and maintained locally, with no requirement to provide CSA's to a centralized office, such as the Navy Commercial Communications Center. We believe that the local CSA policy is acceptable as long as the Command implements an oversight program to ensure the effectiveness and integrity of the base communications acquisition process.

In addition, the Navy Telephone Manual should contain a provision for disciplinary action for communications managers who incorrectly certify bills and who fail to use appropriate bill paying verification procedures. This remedial measure should forewarn all communications managers to properly certify bills prior to payment. The Command should provide results of the annual internal control program, including the identification of communications managers who do not properly certify bills and thus warrant disciplinary action, to the major commands within the Navy and to the commanding officer of the installation reviewed.

Management Control. DoD Directive 5010.38, "Internal Management Control Program," dated April 14, 1987, guides DoD Components in establishing internal control programs. DoD Components should implement a comprehensive system of internal management controls to provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. An internal control program should also

prevent mismanagement and correct specific weaknesses. The Office of the Chief of Naval Operations Instruction 5200.25, "Chief of Naval Operations Management Control Program," dated July 12, 1988, contains additional policies and procedures for implementing the Navy's internal controls program. Specific implementation of base communications internal control policy occurred in February 1988 when the Chief of Naval Operations ordered installations to conduct management control reviews of telephone administration. In spite of the issuance of these directives, we knew of reviews occurring only at the Aviation Supply Office, Naval Base-Charleston, the Naval Amphibious Base-Little Creek, and at the Western Division-Naval Facilities Engineering Command.

We believe that the Navy Telephone Manual and the initiatives originating from the Office of the Chief of Naval Operations provided the Navy communications managers with sufficient guidance to contend with the dynamic post-divestiture telecommunications market. Yet, because of an ineffective oversight program, much of the excellent guidance available to communications managers was not implemented. Since the Naval Computer and Telecommunications Command has been vested with overall responsibility for the administration of base communications in the Department of Navy, it should pursue a more vigorous role in base communications oversight. The Command needs to ensure that communications managers are complying with the inventory and bill paying verification and certification procedures in the Navy Telephone Manual and in relevant Chief of Naval Operations guidance. Oversight and monitoring procedures will ensure compliance with internal controls relating to inventory and bill paying verification procedures.

Corrective Action Taken. During the audit, we provided the commanders of the 11 Navy installations with the results of our audit and provided interim recommendations for improvements. Additionally, we advised appropriate higher level Navy officials, the DCA, and the Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) of the conditions. In some instances, immediate corrective actions were implemented at the installation level. For example, the Commander, Naval Station-New York, informed us that the review of telephone bills would be reassigned to the commanding officer of the Public Works Center. Communications managers at the Aviation Supply Office and the Public Works Center-Norfolk implemented tenant verification procedures, and the communications manager at the Naval Postgraduate School began an inventory of Bell Operating Company equipment and services.

Although all the installations were eager to begin collection action to recover the overpayments made to AT&T and the Bell Operating Companies, Command policy, established in January 1989,

designated a single contracting office to represent the 10 installations at negotiations with AT&T and the Bell Operating Companies. We met with contracting officials in August 1989 and provided them with detailed audit information, including the total amount of credits due the Navy from AT&T and the Bell Operating Companies. The Navy needs to aggressively pursue collection action to obtain AT&T and Bell Operating Company credits for past overpayments and to preclude a recurrence of the problems identified in this report.

Cost Impact to the Navy. From March 1984 to May 1989, AT&T, the Bell of Pennsylvania Telephone Company, and the Chesapeake and Potomac Telephone Company of Virginia overcharged the Navy in excess of $1,070,00 for AUTOVON and DCTN termination service and special assemblies. Details by Navy installation follow.

Summary of Total Overcharges

Installation	AT&T Overcharges	Bell Operating Company Overcharges	Less: Previous AT&T Credit	Outstanding Overcharges
Aviation Supply Office	$230,636	$33,264	$114,155	$149,745
Ships Parts Control Center	348,704	96,281	227,436	217,549
Public Works Center-Norfolk	100,406	N/A	51,786	48,620
Naval Amphibious Base-Little Creek	22,678	17,869	0	40,547
Norfolk Naval Shipyard	41,042	31,035	0	72,077
Naval Station New York	35,799	N/A	0	35,799
Western Division, Naval Facilities Engineering Command	21,953	N/A	0	21,953
Puget Sound Naval Shipyard	58,028	N/A	2,250	55,778
Naval Postgraduate School	28,478	N/A	0	28,478
Marine Corps Air Station	3,970	N/A	0	3,970
	$891,694	$178,449	<$395,627>	$674,516

The $674,516 represents the actual nonrecurring annual savings for AUTOVON and DCTN termination service and special assembly overcharges (AT&T overcharges of $891,694 plus Bell Operating Company overcharges of $178,449 equals $1,070,143, less $395,627 in previous credits). Of the total amount overcharged, $85,443 of recurring annual costs for AUTOVON and DCTN terminations and special assembly charges is attributable to FY 1989. The overcharges, stated in FY 1990 dollars (inflation factor of 4.1 percent for FY 1990), total $88,946. To project the recurring annual savings for FY 1991, we applied the established DoD inflation factor (4.1 percent for FY 1991) to the 1990 total and calculated the savings to be $92,594. Using the FY 1991 recurring savings ($92,594) as the base year, we then applied the established DoD inflation factors (3.8 percent for FY 1992, 3.6 percent for FY 1993, 3.3 percent for FY 1994, and 3.1 percent for FY 1995) for the next four fiscal years, calculating the total recurring savings for the Five-Year Defense Plan at $497,177. The net recurring savings for the Five-Year Defense Plan ($497,177 plus $674,516) was $1,171,693. We concluded, therefore, that the Navy may save as much as $767,110 ($92,594 plus $674,516) during FY 1991 and $1,171,693 during FY 1991 through FY 1995 by avoiding unnecessary telecommunications charges. Budgetary projections for the Five-Year Defense Plan resulting from this audit are in Appendix G.

Conclusion. The telecommunications overcharges experienced by the Navy can be attributed, in part, to the confusion resulting from divestiture and deregulation in January 1984. Navy communications managers were unclear as to the exact role that telephone company vendors assumed immediately after divestiture, which may explain why communications managers initially certified erroneous vendor bills. However, as the roles of AT&T and the Bell Operating Companies became better defined, Navy Communications managers should have familiarized themselves with the types of service from each vendor and authorized charges. In addition, guidance from the Chief of Naval Operations relating to certification procedures was available and disseminated to all Navy communications managers in early 1987; the 1987 Naval Audit Service report discussed the same internal control problems that are identified in this report; and the Navy Telephone Manual, which placed a heavy emphasis on inventory and bill paying certification procedures, became available in 1987. Yet, for more than 5 years after divestiture, AT&T and the Bell Operating Companies continued to submit invoices with erroneous charges for AUTOVON and DCTN termination service and special assemblies, and Navy communications managers continued to certify the bills. In many instances, improper certification occurred as late as 1989. In addition, Navy installations maintained incorrect CSA's and did

not perform inventories of circuits and special assemblies as required by the Navy Telephone Manual. Proper certification of communications bills cannot be accomplished unless Navy communications managers perform inventories and maintain accurate CSA's, Basic Agreements, and tariffs.

Policy officials at the Command need to reverse the trends that exist not only at the installations included in our audit, but also at all Navy installations. Ensuring compliance with the inventory and bill paying certification procedures through an oversight program and establishing remedial measures for disciplinary action for communications managers could produce positive results for the Command. An annual program that tests the accuracy of inventories by reconciling them to the CSA's and certified bills is an example of the type of oversight program that the Command can pursue.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, Naval Computer and Telecommunications Command:

a. Direct the responsible Navy Contracting Officer to recover $674,516 in overpayments relating to Automatic Voice Network and Defense Commercial Telecommunications Network termination service and special assembly overcharges:

(1) By obtaining a credit of $496,067 from the American Telephone and Telegraph company for overcharges for Automatic Voice Network and Defense Commercial Telecommunications Network termination service and special assemblies;

(2) By obtaining a credit of $129,545 from Bell of Pennsylvania Telephone Company for overcharges for Automatic Voice Network and Defense Commercial Telecommunications Network termination service; and

(3) By obtaining a credit of $48,904 from the Chesapeake and Potomac Telephone Company of Virginia for overcharges for Automatic Voice Network and Defense Commercial Telecommunications Network termination service.

b. Establish a Command internal control program that annually verifies compliance with the inventory and bill paying certification procedures outlined in the Navy Telephone Manual and in guidance furnished by the Office of the Chief of Naval Operations, and provide the results of this annual program to all major commands within the Navy and to the commanding officer of the installation reviewed.

c. Add a provision in the Navy Telephone Manual for disciplinary action for communications managers who fail to certify bills properly and who use inadequate bill paying verification procedures.

2. We recommend that the Assistant Secretary of the Navy (Financial Management):

a. Reduce the appropriate Navy communications budget for FY 1991 by $767,110 or by the net amount determined to be overcharged based on the results of legal and contractual negotiations between Navy contracting officers and telephone company vendors;

b. Reduce the appropriate Navy communications program element for the FY 1991 through FY 1995 Five-Year Defense Plan by a total of $1,171,693 or by the net amount determined to be overcharged based on the results of legal and contractual negotiations between Navy contracting officers and telephone company vendors.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

The Navy generally agreed with the draft report findings and recommendations, concurring with Recommendations 1.c. and 2.b., while concurring in principle with Recommendations 1.a., 1.b., and 2.a. However, the Navy did not provide the estimated dates for completion of planned actions. Therefore, in response to this final report, we request that the Navy provide us with the dates corrective actions have been or will be taken for all recommendations. The complete text of the Navy's comments is in Appendix E.

Management Comments. Regarding Recommendation 1.a., the Navy concurred in principle, but maintained that the amounts we reported as overcharges are estimates and that recovered amounts may vary based on negotiations with telephone company vendors. Audit activity at the Ships Parts Control Center in Mechanicsburg, Pennsylvania, was cited by the Navy as an example of viewing overcharges as estimates.

Audit Response. There is no mention in the report that our computations, especially for the overcharges associated with AUTOVON and DCTN termination service, are estimates. The discussion that the Navy cites on page 23 of the draft report involving the Ships Parts Control Center deals exclusively with AUTOVON and DCTN termination service. We are confident that AT&T overcharged for AUTOVON and DCTN termination service, since AT&T acknowledged by issuing credits, including credits at the Ships Parts Control Center, that it erroneously charged for AUTOVON and DCTN termination service.

We acknowledge that some of the overcharges associated with special assembly billings could be subject to a legitimate dispute by AT&T. AT&T claims that because a communications manager could not locate a special assembly does not necessarily mean the special assembly does not exist. However, at each of the installations included in our audit, we asked the communications managers to physically locate and identify special assemblies appearing on the AT&T invoice. If a special assembly was identified, which was rare, we considered the monthly charge for that item to be appropriate. Conversely, if the communications managers could not locate special assemblies, we then asked the communications managers why payment was being made for equipment that did not exist. At one of the installations that we visited where special assembly overcharges existed, we received confirmation from an AT&T employee that special assemblies did not exist. We therefore concluded that assessments made by AT&T for nonexistent special assemblies were in error and that an overcharge had occurred. We did not estimate these amounts. Yet, we concede that AT&T might be able to locate some special assemblies that were not located by the communications managers at the installations included in our audit. We are aware that since gaining access to our findings on special assembly overcharges, AT&T has attempted to locate special assemblies at various Navy installations. To our knowledge, AT&T has not located any of the special assemblies that we claim do not exist.

Accordingly, we believe that the finding and the accompanying computations are accurate and represent a legitimate claim for overpayment, and the computations should not be considered estimates. Therefore, we request that the Navy reconsider its position in response to this report.

Management Comments. Concerning the comments on Recommendation 1.b., the Navy concurred in principle to establish a Command internal control program that verifies compliance with inventory and bill paying procedures. The Navy stated that only 12 of the 163 Navy Activities Providing Telephone Service (APTS) are under Naval Computer and Telecommunications Command claimancy. However, the Navy stated that this lack of oversight will be corrected when a plan to functionally transfer all APTS to the Naval Computer and Telecommunications Command's claimancy is executed. In the interim, the Navy stated that the Naval Computer and Telecommunications Command "will request that applicable major claimants establish a Command internal control program to monitor their APTS. Additionally, NCTC [Naval Computer and Telecommunications Command] is pursuing a Base Billing Audit program as the means to further review Navy bills."

Audit Response. We believe the Navy's response indicates full concurrence with Recommendation 1.b. The billing program that the Naval Computer and Telecommunications Command is establishing illustrates that the Navy supports the concept of sound internal controls that Recommendation 1.b. promotes. We commend the Navy in its actions and consider the comments to Recommendation 1.b. to be fully responsive, once a completion date for planned action is provided.

We also commend the Navy for its planned action in concurring with Recommendation 1.c. to add a provision for disciplinary action in the Navy Telephone Manual for communications managers who certify bills improperly. A completion date for planned action for Recommendation 1.c. is requested when the Navy responds to this report.

Management Comments. Regarding Recommendation 2.a., the Navy concurred in principle to reduce the FY 1990 communications budget by $763,461. The Navy stated that since FY 1990 had almost ended, the budget reduction will occur during FY 1991. Further, the Navy stated that amounts cited in Recommendation 2.a. may change in negotiated settlements with vendors. Finally, the Navy concurred with Recommendation 2.b., requiring a reduction in the appropriate communications element for the FY 1990 through FY 1994 Five-Year Defense Plan.

Audit Response. We recognize that budgetary reductions would be dependent on the outcome of negotiations between Navy contracting officers and vendors, and we have revised Recommendation 2.a. to reflect that contingency. Similarly, although the Navy concurred with Recommendation 2.b., dealing with the Five-Year Defense Plan, we have also revised that recommendation to accommodate the outcome of negotiated settlements. Finally, we have updated our projections in this final report to provide the Navy with budgetary amounts for FY 1991 and for the FY 1991 through FY 1995 Five-Year Defense Plan, and those amounts are included in Recommendations 2.a. and 2.b. Accordingly, we request that the Navy respond to revised Recommendations 2.a. and 2.b. when replying to this report.

GLOSSARY

AUTOVON	The Automatic Voice Network is a part of the Defense Communications System's long-distance telecommunication service.
AUTOVON Access Lines	Provides Navy subscribers access to the AUTOVON network via line connections from the Central Office Exchange System to the AUTOVON switch.
Backbone Costs	Costs associated with AUTOVON and DCTN, incurred for lease of switches and interconnecting circuits, operation and maintenance of switching centers, and administrative expenses.
Base Communications	The local area telecommunications needs of a DoD installation.
Bell Operating Companies	The 22 independent Bell Telephone Companies that provide local telecommunication needs to a defined geographic area.
Central Office Exchange Service (CENTREX)	A highly automated telecommunications center where the Bell Operating Companies terminate customer lines and house the equipment that interconnects these lines. The CENTREX provides Navy installations with access to long-distance networks (such as AUTOVON and DCTN) from local bases.
Communications Service Authorizations (CSA)	Telecommunications service contracts placed by Navy installations against Basic Agreements established with various vendors.
Defense Commercial Telecommunications Network (DCTN)	A part of the Defense Communications System's long-distance telecommunication service that was designed to alleviate AUTOVON traffic burdens.
Plan of Reorganization	The Federal court document that outlines the divestiture agreement between AT&T and the Bell Operating Companies.
Precedent-AUTOVON Termination	A prioritized AUTOVON call that can preempt all other AUTOVON calls.
Private Branch Exchange (PBX)	Customer-owned or leased switching equipment that is located on Navy installations.

GLOSSARY (Continued)

Private Line Terminations	A physical switching (AUTOVON or DCTN terminations) mechanism that allows Navy CENTREX subscribers to connect local area telecommunications with the AUTOVON or DCTN. Termination charges are controlled by state public utility commissions as a result of tariffs filed by the Bell Operating Companies.
Regional Bell Operating Company	Seven Bell holding companies that are parent corporations to the 22 local Bell Operating Companies (for example, the Pacific Bell Telephone Company is controlled by Pacific Telesis).
Routine-AUTOVON Termination	An AUTOVON call that has no preemptive capability.
Special Assembly	Equipment that is added to existing equipment or voice (telecommunications) lines or that can function separately. Special assemblies enhance the ordinary capabilities of equipment or lines and are designed for the specific needs of the Navy user.
Tariff	A schedule of authorized charges or rates of the Bell Operating Companies approved by a state public utility commission.
Tie-line Termination	A circuit path that connects two PBX switching units.
Universal Service Order Code	An alpha-numeric designation that classifies or identifies telecommunications services appearing on the monthly Bell Operating Company bill.

BILLING EFFECTS OF DIVESTITURE

Some of the billing problems experienced by Navy Central Office Exchange Service (CENTREX) users as a result of the court-ordered divestiture of AT&T are discussed below.

Overview. Most Navy installations either own or lease an on-premise switch, a Private Branch Exchange, which provides the user with dial tone service, control of telephone routing, and options for telephone features. Some Navy installations neither own nor lease a switch and subsequently rely on a local exchange carrier (usually a Bell Operating Company) for their switch services. The Bell Operating Companies provide switch services and other features to Navy users through a Central Office. A Central Office is a highly automated telecommunications center where the Bell Operating Companies terminate customer lines and house the equipment that connects these lines. Users who are serviced by a Central Office refer to their service as CENTREX. As part of the divestiture agreement, the Bell Operating Companies retained their Central Office operations and the right to provide all services associated with CENTREX.

The divestiture redistribution and assignment of telecommunications services between AT&T and the Bell Operating Companies occurred in early 1984. The actual assignment of services was accomplished through a transfer of billing codes from the Regional Bell Operating Companies to AT&T. The Plan of Reorganization allowed AT&T the ability to provide special assemblies and customer-premise (leased) equipment, while the Bell Operating Companies were allowed to provide Automatic Voice Network (AUTOVON) and Defense Commercial Telecommunications Network (DCTN) termination service.

Special Assemblies and AUTOVON and DCTN Terminations. A special assembly is equipment that is added to existing equipment or voice (telecommunications) lines or equipment that can function separately. Special assemblies enhance the ordinary capabilities of equipment or lines and are designed for specific needs of the Navy user. Most special assemblies were installed before divestiture and are billed at unit prices established at the time of installation. Before divestiture, special assemblies were owned by the local Bell Operating Company, which was corporately synonymous with AT&T. After divestiture in 1984, AT&T assumed ownership and the right to bill customers for special assemblies. Although the detailed inventory records identifying the location of each special assembly and, therefore, the basis for the monetary charges, were transferred by the Regional Bell Operating Companies to AT&T, AT&T can no longer locate the inventory records. Accordingly, both AT&T management and Bell Operating Company management consider the records to be lost.

All Navy installations and activities that subscribe to AUTOVON and DCTN service pay a backbone fee to the Defense Communications Agency (DCA) for the service. However, CENTREX users must pay an additional charge to the servicing Bell Operating Company, because CENTREX provides the additional service of routing incoming and outgoing AUTOVON and DCTN calls from the Central Office to the Navy installation.

AUTOVON and DCTN calls terminate through a CENTREX software mechanism. The monthly charge for AUTOVON and DCTN termination service is controlled in most states through Bell Operating Company tariffs filed at the appropriate state public utility commissions and is directly proportional to the number of AUTOVON or DCTN access lines located at an installation. Tariffs for AUTOVON terminations are filed as a private line termination and are usually distinguished in price as Routine-AUTOVON or Precedent-AUTOVON terminations. A Routine-AUTOVON call has no preemptive capability, while a Precedent-AUTOVON call is prioritized and can preempt all other AUTOVON calls. Tariffs that specifically identify DCTN terminations have not been filed by Bell Operating Companies. However, Routine-AUTOVON terminations and DCTN terminations are functionally identical. Bell of Pennsylvania made no distinction between an AUTOVON (Routine or Precedent) or DCTN transmission and charged $34 per line for all terminations at the Naval Aviation Supply Office and at the Naval Ships Parts Control Center. In California, Pacific Bell charged the Western Division-Naval Facilities Engineering Command in San Bruno a $51 per line charge for all Routine-AUTOVON and DCTN terminations. We agree with the Bell of Pennsylvania and Pacific Bell charges for DCTN termination service and believe that none of the Bell Operating Companies should distinguish between charges for AUTOVON termination service and DCTN termination service.

Divestiture Billing Codes Transfer. Telecommunications services are classified by an alpha-numeric billing code known as a Universal Service Order Code (USOC). The USOC associated with special assembly charges is E99ZPYZZ++. In compliance with the Federal court-ordered divestiture decree, all USOC's with this exact 10-character designation were transferred from the Bell Companies to AT&T. The transfer of the special assembly USOC's was handled by the Regional Bell Operating Companies, the holding companies for the Bell Operating Companies. However, due to an apparent programming oversight, all other USOC's beginning with the first 3-character designation, E99, were inadvertently transferred by the Regional Bell Operating Companies to AT&T. Prominent among this transfer were the numerous E99 billing codes associated with AUTOVON termination service. Accordingly, through this erroneous USOC transfer, the Bell Operating

Companies allowed AT&T to bill for AUTOVON termination service although they provided the service. The Bell Operating Company USOC's beginning with E99 and associated with AUTOVON termination charges that were erroneously transferred were: BFBK1, BFBK9, BFDKB, BFDKC, BFDKG, BFDKQ, BFDKR, BFDKU and BFDKW.[1/]

Discovery of AT&T Billing Errors. In 1986 and 1987, the AT&T billing discrepancy relating to AUTOVON and DCTN terminations was identified (DCTN overcharges were not incurred by Navy installations until 1986, the year that DCTN became operational). The errors were detected by various Bell Operating Company marketing representatives who discovered that their respective companies were not billing Navy CENTREX installations for the AUTOVON and DCTN termination service. Bell marketing representatives notified the various regional AT&T Federal Business Centers (billing offices) of the billing error. In concert with the Bell Operating Companies, AT&T agreed that Navy installations that were assessed AUTOVON termination charges after April 15, 1985, would be eligible for a credit equal to the amount overcharged by AT&T. (No effort was made to compensate installations for charges assessed for unidentifiable special assemblies). The period immediately before April 15, 1985, and extending back to January 1, 1984, was viewed as a "wash" by AT&T and the Bell Operating Companies; that is, AT&T absolved itself from issuing credits for erroneous AUTOVON termination charges from January 1, 1984, through April 15, 1985. This internally devised policy was made with the concurrence of all 22 local Bell Operating Companies. In turn, the Bell Operating Companies agreed that they would not seek remuneration for AUTOVON termination service provided to Navy installations from January 1, 1984, to April 15, 1985. They did, however, retroactively bill Navy installations from the time the errors were detected in either 1986 or 1987, back to April 15, 1985.

The April 15, 1985, benchmark is regarded by AT&T and the Bell Operating Companies as the end of the "true-up" period, as provided by the Plan of Reorganization. Generally, the Federal court allowed the divested parties a grace period of 1 year as a

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1/ In addition, the E6VGFTG9 USOC was erroneously transferred by a Regional Bell Operating Company (Bell Atlantic) to AT&T for billings associated with AUTOVON termination service at the Navy Public Works Center - Norfolk, Virginia, and at the Norfolk Naval Shipyard in Portsmouth, Virginia. The E99ZPYZZ++ USOC, normally associated with special assembly charges, was used to bill AUTOVON termination service at the Naval Ships Parts Control Center in Mechanicsburg, Pennsylvania, and was also erroneously transferred by Bell Atlantic to AT&T.

". . . discovery of record errors and of mistaken assignments. . . ."[2/] AT&T interpreted the Plan of Reorganization as allowing AT&T to retain revenue accrued from the erroneous AUTOVON termination charges from January 1, 1984, through April 15, 1985, and that AT&T could not be held liable for erroneous billing actions during this time frame. We considered AT&T's interpretation and subsequently discussed the matter with lawyers of the Antitrust Division, Department of Justice. The Antitrust Division handled the Government's interest during the court-ordered deregulation of AT&T. The Antitrust Division legal staff did not agree with AT&T's interpretation, mainly asserting that the "true-up" period did not relieve AT&T of incurred liability. The Department of Justice position is that all AT&T overcharges assessed against Navy CENTREX installations from January 1, 1984, forward must be credited to the affected installations.

Finally, in a breach of its policy (refusing to provide credits for overcharges incurred before April 15, 1985), AT&T provided a credit to the Great Lakes Naval Training Center for overcharges relating to AUTOVON termination service incurred in late 1984. Therefore, it appeared that a precedent was created that would justify future credit requests for overcharges incurred by all DoD installations from January 1, 1984, through April 15, 1985.

2/ Plan of Reorganization, Civil Action No. 82-0192, United States District Court for the District of Columbia.

AUDIT METHODOLOGY

This appendix describes our audit approach in determining the accuracy of AT&T charges for Automatic Voice Network (AUTOVON) and Defense Commercial Telecommunications Network (DCTN) termination service and special assembly items at Navy Central Office Exchange Service (CENTREX) installations for the period of January 1, 1984, through May 31, 1989. Because we identified Bell Operating Company overcharges at two Navy installations in Pennsylvania that occurred between July 1982 and July 1984, we expanded the scope of our audit to include the overcharges that began in July 1982 at those two installations only.

CENTREX Universe. We identified the Navy CENTREX universe from network schematics available in the AT&T Routing Guide, dated December 15, 1987. The guide showed that 14 Navy installations were serviced by CENTREX. To determine if the Navy installations had been charged for AUTOVON or DCTN 1/ termination service or for special assemblies, we requested AT&T to provide official company accounting records for the period January 1, 1984, through August 31, 1988. The records indicated whether or not billing codes associated with AUTOVON termination service and special assembly charges appeared on AT&T invoices to the 14 Navy installations for that period. From an initial list of 14 Navy CENTREX users, we identified 11 installations that were being billed for AUTOVON or DCTN termination service and special assemblies. The remaining three Navy installations were not charged for AUTOVON or DCTN termination service or special assemblies.

Evaluation of Charges. All instances of potential AT&T overcharges were then verified to billing information available at the 11 Navy installations 2/ included in our audit. To determine the validity and appropriations of charges, we examined available AT&T invoices, Bell Operating Company invoices, available Communications Service Authorizations, work orders, and

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1/ DCTN became operational in 1986. AT&T billed erroneous charges for DCTN terminations under an AUTOVON termination billing code.

2/ Naval Aviation Supply Office, Philadelphia, Pennsylvania; Naval Ships Parts Control Center, Mechanicsburg, Pennsylvania, Navy Public Works Center, Norfolk, Virginia; Naval Amphibious Base-Little Creek, Little Creek, Virginia; Norfolk Naval Shipyard, Portsmouth, Virginia; Naval Station and Naval Base-Charleston, Charleston, South Carolina; Naval Station-New York, Brooklyn, New York; Western Division-Naval Facilities Engineering Command, San Bruno, California; Puget Sound Naval Shipyard, Bremerton, Washington; Naval Postgraduate School, Monterey California; Marine Corps Air Station, El Toro, California.

AUDIT METHODOLOGY (Continued)

Basic Agreements. We reviewed internal controls over communications bill paying procedures at each installation, as well as the Naval Telecommunications Command's internal control policies relating to payment of vendor invoices. We also inventoried special assembly items at all 11 Navy installations. Additionally, we visited state public utility commission offices to verify that termination charges billed to the Navy agreed with the amounts allowed (tariffs) to be charged for such services. We met with Bell Operating Company officials to discuss issues relevant to the audit. We met with Defense Communications Agency (DCA) officials periodically throughout the audit to obtain official DoD telecommunications guidance. Through the cooperation of these officials, we were provided with DCA certified circuit inventory data that enabled us to reconcile the number of AUTOVON and DCTN terminations listed on the Navy invoices.

We provided Navy installation commanders with our results immediately upon completion of the field work at each site. Further, to provide timely audit results, we sent memorandums to the commanders of the 11 Navy installations audited. We also provided the same summaries to the appropriate higher Navy commands and to DCA. We discussed the details of our results and recommendations with senior officials of the Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) and with the Director, Defense Communications Systems Organization, DCA. In our correspondence and meetings, we explained the basis for our conclusions and stressed the need to take corrective action to: eliminate erroneous charges, initiate collection action against AT&T and the Bell Operating Companies for prior overpayments, and conduct baseline inventories of telecommunications assets.

SUMMARY OF AT&T SPECIAL ASSEMBLY OVERCHARGES

Naval Aviation Supply Office
For August 1984 Through August 1988

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed	Overcharges
$.75	2	$ 1.50	49	$ 73.50
6.40	1	6.40	49	313.60
4.35	2	8.70	49	426.30
18.00	1	18.00	49	882.00
9.30	2	18.60	49	911.40
4.05	8	32.40	49	1,587.60
17.00	2	34.00	49	1,666.00
7.00	7	49.00	49	2,401.00
58.00	1	58.00	49	2,842.00
29.05	2	58.10	49	2,846.90
69.65	1	69.65	49	3,412.85
21.45	4	85.80	49	4,204.20
22.05	4	88.20	49	4,321.80
220.00	1	220.00	49	10,780.00
22.60	17	384.00	49	18,825.80
98.65	5	493.25	49	24,169.25
	Total AT&T Overcharges			$79,664.20

Naval Station, New York
For December 1984 Through December 1988

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed	Overcharges
$9.25	2	$18.50	48	$888.00
	Total AT&T Overcharges			$888.00

SUMMARY OF AT&T SPECIAL ASSEMBLY OVERCHARGES (Continued)

Naval Ships Parts Control Center
For July 1984 Through December 1988

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed	Overcharges
$ 1.45	3	$ 4.35	53	$ 230.55
5.85	1	5.85	53	310.05
14.65	1	14.65	53	776.45
13.90	2	27.80	53	1,473.40
7.00	4	28.00	53	1,484.00
17.00	2	34.00	53	1,802.00
53.40	1	53.40	53	2,830.20
58.00	1	58.00	53	3,704.00
95.00	1	95.00	53	5,035.00
10.45	12	125.40	53	6,646.20
26.50	6	160.20	53	8,490.60
220.00	1	220.00	53	11,660.00
23.80	10	238.00	53	12,614.00
290.00	1	290.00	53	15,370.00
59.20	5	296.00	47	13,912.00
22.05	67	1,477.35	10	14,773.50
	Total AT&T Overcharges			100,481.95

Public Works Center - Norfolk
For April 1985 Through December 1988

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed *	Overcharges
$ .75	1	$ .75	25	$ 18.41
4.50	2	9.00	25	220.95
42.50	1	42.50	45	1,912.50
79.00	1	79.00	22	1,704.03
120.00	1	120.00	13	1,560.00
161.00	1	161.00	45	7,245.00
120.00	2	240.00	6	1,440.00
20.00	3	360.00	6	1,998.00
	Total AT&T Overcharges			$16,098.89

* Number of months billed is rounded to the nearest month

SUMMARY OF AT&T SPECIAL ASSEMBLY OVERCHARGES (Continued)

Naval Amphibious Base - Little Creek
For April 1985 Through August 1988

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed	Overcharges
$ 5.00	1	$ 5.00	39	$ 195.00
3.002	2	6.00	39	234.00
9.75	3	29.25	39	1,140.75
8.50	7	59.50	39	2,320.50
30.00	1	30.00	39	1,170.00
51.00	1	51.00	39	1,989.00
	Total AT&T Overcharges			$7,049.25

Norfolk Naval Shipyard
For April 1985 Through February 1988

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed	Overcharges
$ 3.35	3	$ 10.05	34	$ 341.70
7.05	1	7.05	34	239.70
7.80	1	7.80	34	265.20
9.65	1	9.65	34	328.10
12.35	1	12.35	34	419.90
16.50	2	33.00	34	1,122.00
18.70	1	18.70	34	635.80
.50	44	22.00	34	748.00
44.00	1	44.00	34	1,496.00
175.30	1	175.30	34	5,960.20
9.35	33	308.55	34	10,490.70
	Total AT&T Overcharges			$22,047.30

SUMMARY OF AT&T SPECIAL ASSEMBLY OVERCHARGES (Continued)

Naval Postgraduate School
For March 1984 Through May 1989

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed	Overcharges
$ .69	1	$ .69	61	$ 42.09
3.16	1	3.16	30	94.80
4.74	4	18.96	61	1,156.56
6.32	4	25.28	61	1,542.08
31.62	1	31.62	61	1,928.82
39.16	1	39.16	61	2,388.76
	Total AT&T Overcharges			$7,153.11

Marine Corps Air Station, El Toro
For April 1984 Through December 1986

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed	Overcharges
$ 3.16	2	$ 6.32	33	$ 208.56
	Total AT&T Overcharges			$208.56

SUMMARY OF AT&T SPECIAL ASSEMBLY OVERCHARGES (Continued)

Puget Sound Naval Shipyard
For May 1984 Through April 1989

Monthly Recurring Charge	No. of Units Billed	Total AT&T Monthly Billing	Number of Months Billed	Overcharges
$ .50	1	$ .50	59	$ 29.50
.50	2	1.00	59	59.00
.75	2	1.50	59	88.50
1.42	2	2.84	35	99.40
1.50	2	3.00	48	144.00
3.25	1	3.25	5	16.25
1.90	2	3.80	5	19.00
1.00	4	4.00	59	236.00
1.50	3	4.50	49	220.50
5.00	1	5.00	59	295.00
5.25	1	5.25	59	309.75
1.50	4	6.00	13	78.00
4.00	2	8.00	5	40.00
2.15	4	8.60	6	51.60
1.25	7	8.75	59	516.25
4.50	2	9.00	41	369.00
3.50	4	14.00	49	686.00
17.70	1	17.70	13	230.10
17.70	1	17.70	35	619.50
17.70	1	17.70	48	849.60
4.75	4	19.00	59	1,121.00
9.60	2	19.20	59	1,132.80
1.42	14	19.88	48	954.24
22.00	1	22.00	49	1,078.00
3.00	8	24.00	59	1,416.00
30.02	1	30.02	5	150.10
1.42	24	34.08	13	443.04
17.70	2	35.40	49	1,734.60
9.50	4	38.00	59	2,242.00
7.75	5	38.75	59	2,286.25
22.00	2	44.00	59	2,596.00
1.50	32	48.00	59	2,832.00
2.05	27	55.35	41	2,269.35
14.50	4	58.00	59	3,422.00
32.00	2	64.00	59	3,776.00
2.35	52	122.20	59	7,209.80
6.00	52	312.00	59	18,408.00
	Total AT&T Overcharges			$58,028.13
	Less Payments Withheld			<2,250.18>
	Outstanding AT&T Overcharges			$55,777.95

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DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON D C 20350-1000

SEP 26 1990

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DRAFT AUDIT REPORT ON BILLINGS FOR CENTREX AUTOVON TERMINATIONS IN THE DEPARTMENT OF THE NAVY (PROJECT NO. 91C-0025.03) - ACTION MEMORANDUM

Ref: (a) DODIG Memo of 28 June 90

Encl: (1) DON Response to Draft Audit Report

I am responding to the draft audit report forwarded by reference (a) concerning billings for Central Office Exchange Service (CENTREX) Automatic Voice Network (AUTOVON) terminations in the Department of the Navy.

The Department of the Navy response is provided at enclosure (1). We generally agree with the draft report findings and recommendations. As outlined in the enclosed comments, the Department is planning to take specific actions to ensure adequate management controls of similar CENTREX AUTOVON billings in the future.

Robert C. McCormack

ROBERT C. McCORMACK

Copy to:
NAVCOMPT (NCB-53)
CNO (OP-094)
COMNAVCOMTELCOM
NAVINSGEN

Department of the Navy Response

to

DODIG Draft Report of June 28, 1990

on

Billings for CENTREX AUTOVON Terminations
in the Department of the Navy
Project No. 91C-0025.03

Finding:

Ten Navy installations were overcharged by the American Telephone and Telegraph Company (AT&T) and two Bell Operating Companies for termination service for the Automatic Voice Network (AUTOVON) and the Defense Commercial Telecommunications Network (DCTN) and for special assembly equipment. AT&T overcharges resulted from incorrect billings for AUTOVON and DCTN termination service and special assemblies. Bell Operating Company overcharges occurred because of incorrect billings for the number of circuits associated with AUTOVON and DCTN termination service and from incorrect and unauthorized tariff charges for AUTOVON termination service. The overcharges were incurred continuously for almost 7 years because Navy communications managers did not perform inventories of circuits and leased special assemblies and did not check the accuracy of telephone bills before certifying them for payment. As a result, the Navy overpaid AT&T and the two Bell Operating Companies in excess of $1,070,000. Unless this condition is rectified, unnecessary AUTOVON and DCTN termination charges and special assembly charges could cost the Navy as much as $88,945 during FY 1990, and $480,075 during the execution of the FY 1990 through FY 1994 Five Year Defense Plan.

Recommendation 1.a.:

We recommend that the Commander, Naval Computer and Telecommunications Command (NCTC) direct the responsible Navy Contracting Officer to recover $674,516 in overpayments relating to AUTOVON and DCTN and special assembly overcharges:

(1) By obtaining a credit of $496,067 from the American Telephone and Telegraph Company for overcharges for AUTOVON and DCTN termination service and special assemblies;

(2) By obtaining a credit of $129,545 from Bell of Pennsylvania Telephone Company for overcharges for AUTOVON and DCTN termination service; and

(3) By obtaining a credit of $48,904 for the Chesapeake and Potomac Telephone Company of Virginia for overcharges for AUTOVON

and DCTN termination service.

Final Report Page No.

DON Position:

Concur in principle. Naval Telecommunications Contracting Center (Information Technology Office as of 1 Oct 90) will actively assist and track the progress of the applicable local Activities Providing Telephone Service (APTS) in their efforts to recover overcharges. It must be understood that these amounts are estimates as determined by this audit. These figures may differ after recoveries are negotiated with the vendors and claims are settled. The case of the Ships Parts Control Center in Mechanicsburg, Pennsylvania (page 23) clearly illustrates this 12
point. Recommend a final sentence be added at the end of the Findings paragraph (pg 12) stating: "It is understood that 7
monetary amounts contained in this document are estimates as determined during audit, and that the actual figures may differ after recoveries are negotiated and claims are settled with the vendors."

Recommendation 1.b.:

We recommend that NCTC establish a Command internal control program that annually verifies compliance with the inventory and bill paying certification procedures outlined in the Navy Telephone Manual and in guidance furnished by the Office of the Chief of Naval Operations and provide the results of this annual program to all major commands within the Navy and to the commanding officer of the installation reviewed.

DON Position:

Concur in principle. Out of the 163 Navy APTS only 12 are under NCTC claimancy in which NCTC has direct responsibility for the oversight and enforcement of Navy Telephone Manual requirements. For the other 151 APTS, NCTC does not control their local ordering, bill verification, or payment (telephone funds are provided to Bases by their major claimant). Just as other policy setting Echelon II organizations, NCTC relies on major claimants and other command inspectors to enforce its policies Navy-wide. This lack of oversight will be corrected when a plan to functionally transfer all APTS to NCTC's claimancy is executed. In the near term, NCTC, citing this audit, will request that applicable major claimants establish a Command internal control program to monitor their APTS. Additionally, NCTC is pursuing a Base Billing Audit program as the means to further review Navy bills.

Recommendation 1.c.:

We recommend that NCTC add a provision in the Navy Telephone Manual for disciplinary action for communications managers who fail to certify bills properly and who use inadequate bill paying verification procedures.

DON Position:

Concur. NCTC is currently revising the Navy Telephone Manual. The new revision will contain a provision reminding communications managers that they are subject to penalties under the Uniform Code of Military Justice or the Civilian Table of Penalties (whichever applies) for failure to comply with bill paying/verification procedures.

Recommendation 2.a.:

We recommend that the Assistant Secretary of the Navy (Financial Management) reduce the appropriate Navy communications budget for FY 1990 by $763,461.

DON Position:

Concur in principle. Since FY 1990 is basicly over, the appropriate Navy communications budget will be reduced by major claimant in FY 1991. Additionally, this budget reduction will occur during FY 1991 mid-year review to allow for negotiations and a better insight into actual recoveries of overcharges. Actual reduction will reflect the recommended FY 1991 recurring charge and the dollar for dollar amount of overcharges recovered.

Recommendation 2.b.:

We recommend that the Assistant Secretary of the Navy (Financial Management) reduce the appropriate Navy communications program element for the FY 1990 through FY 1994 Five Year Defense Plan by a total of $1,154,591.

DON Position:

Concur. Appropriate action will be taken. Additionally, the FY94 Base Communications Assessment (the assessment that provides funding guidance for these communications services) will reflect recurring savings as identified by this audit and any further savings that may accrue due to Command internal control programs.

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Amount and/or Description of Benefit	Type of Benefit
1.a.	Compliance - Obtain credits for overpayment made to vendor.	Monetary benefits are included in Recommendation 2.a. below.
1.b.	Internal Control - Improves base communications management.	Nonmonetary
1.c.	Internal Control - Establishes oversight and monitoring of base communications by the Naval Computer and Telecommunications Command.	Nonmonetary
2.a.	Compliance - Reduces communications budget as a result of overpayments.	Funds put to better use of $767,110, 1/. FY 1991 budgetary reduction ($92,594 in recurring savings for 1991 plus $674,516 2/ of credits due from overpayments made from 1984 through 1989). See Appendix G.
2.b.	Compliance - Reduces commmunications budget as a result of overpayments.	Funds put to better use of $1,171,693. Budgetary reduction ($497,177 total recurring savings for the Five-Year Defense Plan, plus 674,516 2/ of credits due from overpayments made from 1984 through 1989), for the Five-Year Defense Plan. See Appendix G.

1/ This amount is included in the $1,171,693 of the Five-Year Defense Plan total recurring savings identified in Recommendation 2.b.

2/ Credits of $674,516 due may be adjusted after negotiations between Navy contracting officers and telephone company vendors.

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FIVE-YEAR DEFENSE PLAN (FYDP) BUDGETARY IMPACT

Recurring Savings (Operation and Maintenance)

Installation	Program Element	Number	Element Title	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	Total FYDP
Aviation Supply Office	Central Supply and Maintenance	0702896N	Base Operations-Logistics	$ 218	$ 226	$ 234	$ 242	$ 249	$ 1,169
Ships Parts Control Center	Central Supply and Maintenance	0702896N	Base Operations-Logistics	45,671	47,406	49,113	50,733	52,306	245,229
Public Works Center-Norfolk	General Purpose Forces	0204796N	Base Operations-Fleet Support Surface	4,071	4,226	4,378	4,523	4,663	21,861
Norfolk Naval Shipyard	Central Supply and Maintenance	0702028N	Ship Maintenance Activities Industrial Fund	20,437	21,214	21,977	22,703	23,406	109,737
Naval Station-New York	General Purpose Forces	0204795N	Base Communications Fleet Support Surface	9,699	10,067	10,430	10,774	11,108	52,078
Naval Post-graduate School	Training, Medical and Other General Purpose Activities	0805796N	Base Operations-Training	1,644	1,706	1,768	1,826	1,883	8,827
Puget Sound Naval Shipyard	Central Supply Maintenance	0702028N	Ship Maintenance Activities Industrial Fund	10,575	10,976	11,372	11,747	12,111	56,781
Marine Corps Air Station-El Toro	General Purpose Forces	0206496M	Base Operations-Forces (Marine Corps)	279	289	299	309	319	1,495
	Total Recurring Savings			$92,594	$96,110	$99,571	$102,857	$106,045	$497,177

FIVE-YEAR DEFENSE PLAN (FYDP) BUDGETARY IMPACT (Continued)

Nonrecurring Savings (Operation and Maintenance)				FY 1991					Total FYDP
Aviation Supply Office	Central Supply and Maintenance	0702896N	Base Operations-Logistics	$149,745					$149,745
Ships Parts Control Center	Central Supply and Maintenance	0702896N	Base Operations-Logistics	217,549					217,549
Public Works Center-Norfolk	General Purpose Forces	0204796N	Base Operations-Fleet Support Surface	48,620					48,620
Naval Amphibious Base-Little Creek	Central Supply and Maintenance	0702037N	Public Works Center Industrial Fund	40,547					40,547
Norfolk Naval-Shipyard	Central Supply Maintenance	0702037N	Ship Maintenance Activities Industrial Fund	72,077					72,077
Naval Station-New York	General Purpose Forces	0204795N	Base Communications Fleet Support Surface	35,799					35,799
Naval Facilities Engineering Command-San Bruno	Central Supply and Maintenance	0708018N	Real Estate and Construction Administration	21,953					21,953
Naval Post-graduate School	Training, Medical, and Other General Purpose Activities	0805796N	Base Operations-Training	28,478					28, 478
Puget Sound Naval Shipyard	Central Supply Maintenance	0702028N	Ship Maintenance Activities Industrial Fund	55,778					55,778
Marine Corps Air Station-El Toro	General Purpose Forces	0206496M	Base Operations-Forces (Marine Corps)	3,970					3,970
	Total Nonrecurring Savings			$674,516					$674,516
	Total Savings			$767,110	$96,110	$99,571	$102,857	$106,045	$1,171,693

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence), Washington, DC

Department of the Navy

Naval Computer and Telecommunications Command, Washington, DC
Naval Aviation Supply Office, Philadelphia, PA
Naval Ships Parts Control Center, Mechanicsburg, PA
Navy Public Works Center, Norfolk, VA
Naval Amphibious Base-Little Creek, Little Creek, VA
Norfolk Naval Shipyard, Portsmouth, VA
Naval Station and Naval Base-Charleston, Charleston, SC
Naval Station-New York, Brooklyn, NY
Western Division-Naval Facilities Engineering Command, San Bruno, CA
Puget Sound Naval Shipyard, Bremerton, WA
Naval Postgraduate School, Monterey, CA
Marine Corps Air Station, El Toro, CA

Defense Agencies

Headquarters, Defense Communications Agency, Washington, DC
Defense Commercial Communications Office, Scott Air Force Base, IL

Non-DoD Activities

Department of Justice, Antitrust Division, Washington, DC
Federal Communications Commission, Washington, DC
California Public Utility Commission, San Francisco, CA
Pennsylvania Public Utility Commission, Harrisburg, PA
Virginia Public Utility Commission, Richmond, VA

Non-Government Activities

Headquarters, American Telephone and Telegraph Company (AT&T) Federal Systems, Washington, DC
Headquarters, AT&T Federal Business Center, Silver Spring, MD
AT&T Federal Business Center, Atlanta, GA
AT&T Federal Business Center, Chicago, IL
AT&T Federal Business Center, Denver, CO
AT&T Federal Business Center, Philadelphia, PA
Bell Atlantic Regional Telephone Company, Philadelphia, PA
Bell of Pennsylvania Telephone Company, Philadelphia, PA
Chesapeake and Potomac Telephone Company of Virginia, Richmond, VA
New York-New England Exchange, New York, NY
Pacific Bell Telephone Company, San Francisco, CA

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AUDIT TEAM MEMBERS

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Francis C. Bonsiero, Project Manager
Deborah A. Gilliam, Team Leader

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Assistant Secretary of the Navy (Financial Management)
Commander, Naval Computer and Telecommunications Command

Defense Agencies

Director, Defense Communications Agency

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office,
NSIAD Technical Information Office

Congressional Committees

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Communications, Committee on Commerce, Science, and Transportation
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House Subcommittee on Legislation and National Security, Committee on Government Operations
House Subcommittee on Telecommunications and Finance, Committee on Energy and Commerce